

BOYS' TOWNS OF ITALY, INC.

**FINANCIAL STATEMENTS
AND AUDITOR'S REPORT**

DECEMBER 31, 2013 AND 2012

BOYS' TOWNS OF ITALY, INC.

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Independent Auditor's Report

**The Board of Directors
Boys' Towns of Italy, Inc.**

Report on the Financial Statements

We have audited the accompanying financial statements of Boys' Towns of Italy, Inc., which comprise the balance sheet as of December 31, 2013 and 2012, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Boys' Towns of Italy, Inc. as of December 31, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Loeb + Troper LLP

July 31, 2014

BOYS' TOWNS OF ITALY, INC.

BALANCE SHEET

DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 133,741	\$ 400,793
Investments (Note 3)	1,469,188	1,326,402
Contributions receivable - current	476,337	508
Prepaid expenses and other assets	31,554	33,111
Office equipment and furniture (net of accumulated depreciation of \$30,537 in 2013 and \$29,581 in 2012)	<u>2,746</u>	<u>3,702</u>
Total assets	<u>\$ 2,113,566</u>	<u>\$ 1,764,516</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	\$ <u>72,341</u>	\$ <u>40,090</u>
Net assets (Exhibit B)		
Unrestricted	1,566,225	1,724,426
Temporarily restricted (Note 6)	<u>475,000</u>	<u> </u>
Total net assets	<u>2,041,225</u>	<u>1,724,426</u>
Total liabilities and net assets	<u>\$ 2,113,566</u>	<u>\$ 1,764,516</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS' TOWNS OF ITALY, INC.

STATEMENT OF ACTIVITIES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013			2012
	Unrestricted	Temporarily Restricted	Total	Unrestricted
Revenues				
Contributions	\$ 657,878	\$ 475,000	\$ 1,132,878	\$ 936,703
Special events	1,198,001		1,198,001	894,691
Direct costs of special events	(486,809)		(486,809)	(392,266)
Investment income - net (Note 3)	142,824		142,824	107,408
Miscellaneous revenue	57		57	3,244
Total revenues	<u>1,511,951</u>	<u>475,000</u>	<u>1,986,951</u>	<u>1,549,780</u>
Expenses (Exhibit C)				
Program services - youth development	1,099,999		1,099,999	1,015,794
Supporting services				
Management and general	298,231		298,231	267,992
Fund raising	<u>271,922</u>		<u>271,922</u>	<u>240,463</u>
Total expenses	<u>1,670,152</u>		<u>1,670,152</u>	<u>1,524,249</u>
Change in net assets (Exhibit D)	(158,201)	475,000	316,799	25,531
Net assets - beginning of year	<u>1,724,426</u>		<u>1,724,426</u>	<u>1,698,895</u>
Net assets - end of year (Exhibit A)	<u>\$ 1,566,225</u>	<u>\$ 475,000</u>	<u>\$ 2,041,225</u>	<u>\$ 1,724,426</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS' TOWNS OF ITALY, INC.

EXHIBIT C

STATEMENT OF FUNCTIONAL EXPENSES
YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013				Total			
	Program Services	Supporting Services		Direct Costs of Special Events				
	Youth Development	Management and General	Fund Raising					
Salaries	\$	101,649	\$	140,373	\$	242,022		
Payroll taxes and employee benefits		31,522		43,531		75,053		
Total salaries and related expenses		133,171		183,904		317,075		
Grants	\$	1,099,999				1,099,999		
Telephone and utilities		7,250		2,417		9,667		
Advertising and promotions		23,374		20,706		20,706		
Transportation and travel		3,767		3,187		26,561		
Office expense		4,457		942		4,709		
Insurance		106		913		5,370		
Printing		820		1,668		1,774		
Postage and delivery		51,143		1,592		2,412		
Rent (Note 4)				5,682		56,825		
Venue rental and catering		17,882			\$	486,809		
Investment management fees		63,673		22,371		17,882		
Professional fees		956				86,044		
Depreciation		9,514		28,540		956		
Miscellaneous						38,054		
Total expenses	1,099,999	316,113		271,922	486,809	2,174,843		
Less expenses deducted directly from revenues						(17,882)		
Investment management fees		(17,882)			(486,809)	(486,809)		
Direct costs of special events					-			
Total (Exhibit B)	\$	1,099,999	\$	298,231	\$	271,922	\$	1,670,152

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BOYS' TOWNS OF ITALY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEARS ENDED DECEMBER 31, 2013 AND 2012

	2012			
	Program Services	Supporting Services		Direct Costs of Special Events
	Youth Development	Management and General	Fund Raising	Total
Salaries		\$ 86,284	\$ 119,153	\$ 205,437
Payroll taxes and employee benefits		17,529	24,206	41,735
Total salaries and related expenses		103,813	143,359	247,172
Grants	\$ 1,015,794			1,015,794
Telephone and utilities		5,669	1,890	7,559
Advertising and promotions		16,737	41,006	41,006
Transportation and travel		6,474	2,391	19,128
Office expense		4,931	1,619	8,093
Supplies		115	986	5,917
Printing		750	1,720	1,835
Postage and delivery		46,500	1,478	2,228
Rent (Note 4)			5,300	51,800
Venue rental and catering		16,743		392,266
Investment management fees		76,671	26,938	16,743
Professional fees		1,740		103,609
Depreciation		4,592	13,776	1,740
Miscellaneous				18,368
Total expenses	1,015,794	284,735	240,463	1,933,258
Less expenses deducted directly from revenues				
Investment management fees		(16,743)		(16,743)
Direct costs of special events				(392,266)
Total (Exhibit B)	\$ 1,015,794	\$ 267,992	\$ 240,463	\$ 1,524,249

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS' TOWNS OF ITALY, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Cash flows from operating activities		
Change in net assets (Exhibit B)	\$ 316,799	\$ 25,531
Adjustments to reconcile change in net assets to net cash used by operating activities		
Depreciation	956	1,740
Net realized and unrealized loss (gain) on investments	(121,791)	(86,580)
Decrease (increase) in assets		
Contributions receivable	(475,829)	62,928
Prepaid expenses and other assets	1,557	4,287
Decrease in liabilities		
Accounts payable and accrued expenses	32,251	(45,748)
Net cash used by operating activities	<u>(246,057)</u>	<u>(37,842)</u>
Cash flows from investing activities		
Purchases of investments	(789,727)	(564,972)
Proceeds from sale of investments	768,732	787,386
Net cash provided (used) by investing activities	<u>(20,995)</u>	<u>222,414</u>
Net change in cash	(267,052)	184,572
Cash - beginning of year	<u>400,793</u>	<u>216,221</u>
Cash - end of year	<u>\$ 133,741</u>	<u>\$ 400,793</u>

See independent auditor's report.

The accompanying notes are an integral part of these statements.

BOYS' TOWNS OF ITALY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 1 - NATURE OF ORGANIZATION

Boys' Towns of Italy, Inc. ("BTI") is located in New York City. BTI was created for the purpose of furnishing aid and assistance for the erection and maintenance of boys' towns and other charitable institutions in the United States and Italy. The primary sources of revenue are contributions and special events.

BTI is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The financial statements are prepared on the accrual basis of accounting.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investments - Investments are stated at fair value. BTI invests in various securities. Investment securities, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term, based on the markets' fluctuations, and that such changes could materially affect the amounts reported in BTI's financial statements.

Contributions receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-adjusted interest rates applicable to the years in which the promises are received. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

Allowance for uncollectibles - BTI determines whether an allowance for uncollectibles should be provided for contributions receivable. Such estimates are based on management's assessment of the aged basis of its contributions, current economic conditions, subsequent collections and historical information. Contributions receivable are written off against the allowance for doubtful accounts when all reasonable collection efforts have been exhausted. Management has determined that no allowance is needed at December 31, 2013 and 2012.

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BOYS' TOWNS OF ITALY, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2013 AND 2012****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Office equipment and furniture - Office equipment and furniture are recorded at cost. BTI capitalizes all property and equipment having a cost of \$1,000 or more with an estimated useful life of greater than one year. Depreciation is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Office equipment and furniture	5-7 years
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Unrestricted net assets - Unrestricted net assets include funds having no restriction as to use or purpose imposed by donors.

Temporarily restricted net assets - Temporarily restricted net assets are those whose use by BTI has been limited by donors to a specific time period or purpose.

Contributions - Unconditional contributions, including promises to give cash and other assets, are reported at fair value at the date the contribution is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted contributions received and expended in the same fiscal year are reflected as unrestricted revenues.

Grant expenses - Grant expenses represent funds which are appropriated by the Board to fund youth development. Grant expense is recorded when funds are awarded.

Advertising - Advertising costs are expensed when incurred.

Rent expense - BTI leases office space in New York City. All leases are operating leases and are accounted for in accordance with generally accepted accounting principles. Rent expense is recognized on the first day of each month for the current month's rent. All leases are reflected on the straight-line basis.

Functional expenses - The costs of providing BTI's services have been summarized on a functional basis. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

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BOYS' TOWNS OF ITALY, INC.**NOTES TO FINANCIAL STATEMENTS****DECEMBER 31, 2013 AND 2012****NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)*****Fair Value Measurements***

Fair Value Measurements establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below. Level 1 inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that BTI has the ability to access. Level 2 inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability. Level 3 inputs to the valuation methodology are unobservable and significant to the fair value measurement. The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2013 as compared to 2012.

Bonds, common stocks and money market funds - Valued at the closing price reported on the active market on which the individual securities are traded.

Mutual funds - Valued at the net asset value ("NAV") of shares held at year end.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while BTI believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

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BOYS' TOWNS OF ITALY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2013 AND 2012

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Uncertainty in income taxes - BTI has determined that there are no material uncertain tax positions that require recognition or disclosure in the financial statements. Periods ending December 31, 2010 and subsequent remain subject to examination by applicable taxing authorities.

Subsequent events - Subsequent events have been evaluated through July 31, 2014, which is the date the financial statements were available to be issued.

NOTE 3 - INVESTMENTS

The following table sets forth by level, within the fair value hierarchy, the assets at fair value as of December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
	<u>Level 1</u>	<u>Level 1</u>
Mutual funds		
Equities	\$ 737,675	\$ 417,621
Fixed income	14,968	57,193
Bonds		
Convertible		44,726
Other	98,530	194,857
Common stocks		
Utilities	586,537	569,457
Money market funds	<u>31,478</u>	<u>42,548</u>
	<u>\$ 1,469,188</u>	<u>\$ 1,326,402</u>

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BOYS' TOWNS OF ITALY, INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2013 AND 2012

NOTE 3 - INVESTMENTS (continued)

The return on investments for December 31, 2013 and 2012 consists of the following:

	<u>2013</u>	<u>2012</u>
Interest and dividends	\$ 38,915	\$ 37,571
Net realized gain (loss) on investments	(20,995)	45,092
Net unrealized gain on investments	<u>142,786</u>	<u>41,488</u>
Total return on investments	160,706	124,151
Less investment fees	<u>(17,882)</u>	<u>(16,743)</u>
Net return on investments	<u>\$ 142,824</u>	<u>\$ 107,408</u>

NOTE 4 - RENT EXPENSE

BTI leases office space in New York City. BTI is paying a monthly lease, renewed annually. Rent expense for the years ended December 31, 2013 and 2012 was \$56,825 and \$51,800, respectively.

NOTE 5 - PENSION PLAN

BTI allows staff the opportunity to save for retirement through a simple IRA Plan. Pension expense for the years ended December 31, 2013 and 2012 was \$7,635 and \$4,500, respectively. BTI provides up to a 3% match.

NOTE 6 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purpose:

	<u>2013</u>	<u>2012</u>
Restructuring project	<u>\$ 475,000</u>	<u>\$ -</u>